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High Tech Gamble, High Stakes Loss

By John de St. Jorre
Special to The Washington Post

It sounded as if one of Walter Mitty's loftier flights of fancy had come true.

You, a government official, banker or corporate chieftain, walk into your office, sit down at your video terminal and punch a few buttons. The screen lights up and the last 24 hours' "take" of significant political and economic information affecting your interests flashes in front of you.

It already is carefully sorted and professionally analyzed. No more complicated searching of data base; no more extraneous material, for this is information in an area you have specifically selected, and it reaches you automatically. There is a keyboard for you to talk back and a printer to print out.

Behind the dream, across the Potomac in Crystal City and Fullerton, Va., lies the substance. Humming, state-of-the art computers, rooms bathed in soft green light where optical scanners digest huge volumes of printed information, systems and software experts, translators and top-flight analysts, journalists and former senior government officials stand ready to serve you. World statesmen, such as Edward Heath and Robert S. McNamara, are part of the operation, ensuring impeccable quality control.

Beyond them, reaching into the far corners of the globe, scores of consultants and correspondents respond to your questions, giving you precisely what you need to know, when you need to know it. Shazaam! Your competitors might as well toss their Rolodexes into their briefcases and take early retirement.

Thus dreamed the men who created IRIS, which stands for International Reporting Information Systems, but also suggests the all-seeing eye and the fleet-footed Greek goddess of messengers.

IRIS was officially launched in November 1981. Fifteen months later it collapsed. During its short life it became more than a dream but something less than a reality; IRIS existed but it never went anywhere.

When the bottom line was examined in the Alexandria bankruptcy court, it was found that $15 million had drained away, $400 in revenue had come in (from an old-fashioned business consultation over lunch) and not a single client had been signed.

IRIS is the story of an enormously ambitious business venture put together by people on both sides of the Atlantic who thought they could cross new frontiers in the information world by using the latest communications technology.

The players were a diverse group, including the predominantly European investors whose "punting" money financed the venture, a former British prime minister and a former U.S. secretary of defense whose stature helped bolster its credibility, as well as senior officials recruited from the State Department and the CIA.

They helped make IRIS also a story of Washington, of the capital's growing magnetism in the world of information and communications technology, of the fascination the city holds for foreign governments, corporations and individuals alike, and of its bulging bureaucracies and its overachievers who, as they move into the fast lane, keep one eye on their peers and the other on greener fields to conquer.

The basic concept of IRIS was to gather, sort and analyze the vast amount of information floating around the world—thereby greatly increasing its value—and deliver it electronically to subscribers. The individual components of the service—news reporting and analysis, business consultancy and electronic publishing—were not new. Successfully combining them, and delivering the service to customers according to their prescribed needs, would have been a breakthrough.

IRIS computers, though they were large, were not unusual. What was special was the software, particularly the "syntactical algorithms," the brain of the software that enables the computer to "read" material and make key distinctions, say, between oil (petroleum) and cooking oil, or between Venetian blinds and blind Venetians. The software would sort the mass of information flowing hourly into the computer and direct it to IRIS clients on the basis of their specific needs built into the computer's programming. The key to the IRIS system was that, instead of you searching for the information, the information would be searching for you.

Thus a company interested in copper or oil would only receive information related to that subject. Similarly, a government, worried by the behavior of its neighbors, could profile itself to receive reports on those countries and nothing else. IRIS thus showed that it was conscious of the complaint that there was already too much information around.

IRIS began when David D'Ambrumenil, a London insurance broker, walked into Anthony Stout's downtown Washington office in the fall of 1979. Stout, a youthful, athletic-looking 43-year-old, is the founder and chairman of the National Journal, a much-praised Washington insiders' weekly focusing on government policy, and the Government Research Corp. (GRC), a business consultancy. Both operations were running reasonably well under the guidance of two efficient deputies, and Stout was bored.

D'Ambrumenil's proposition was simple and exciting. There was, he said, a large, unexploited market in the political risk insurance business. Underwriters lacked an independent and objective international information service on which to base premiums for corporations prepared to do business in many places, if they were properly insured against expropriation resulting from instability and political change. The unexpected collapse of the shah in Iran was still on many people's minds.

D'Ambrumenil's plan was to use a Lloyds of London insurance underwriter to lead the business. His calculation was that premiums based on the new information service would have a significant competitive edge. Commissions would be split between D'Ambrumenil, the underwriter and the information system. D'Ambrumenil estimated that IRIS share would amount to $200,000 monthly.

Stout, stressing that he could only discuss the historical aspects of the story because of continuing contractual obligations to IRIS, said after the crash that he agreed to invest in the venture. However, he felt it was a risky enterprise and made his investment conditional on being paid a management fee and on his own company, GRC, setting up the computer and analytical parts of the system. He and D'Ambrumenil estimated that $10 million would be needed.

By mid-1980, Stout was working full-time on the IRIS project, jumping on and off the Concorde jetliner, staying at Claridges, London's premier hotel, using his broad range of business contacts and his considerable charm to promote a venture that had become something of an obsession. With characteristic panache, he called the new venture "Project Grand Slam." A National Journal reporter, reflecting some of the skepticism among the magazine's staff, dubbed it "Project Titanic."

Stout and D'Ambrumenil had their greatest success in Europe with bankers, who were attracted by the information and high technology aspects, and with insurance companies that also were interested in the political risk business. These investors included the Henry Ansbacher group, a British investment and insurance firm; Seascope, a London insurance company; Skandia, Sweden's largest insurance firm; The Bank in Liechtenstein, owned by the prince of Liechtenstein; Banco de Bilbao in Spain and Fred Olsen, the Norwegian shipping magnate who also owns Timex watches and other high technology companies.

Stout had a personal stake, as did a wealthy Swede, Gustaf Douglas, who was to play a critical role later. S. G. Warburg, the prestigious British investment bank, brought in a final investor whose identity was never revealed to the others. He was known simply as "Mr. X," another investor said.

The investors were not a cohesive group but they all had some risk capital—their "punting" money, as one London businessman put it—available and a number of them were excited by the lucrative insurance business that Stout and D'Ambrumenil expected. Stout's vision of the new computer-driven information world was also tantalizing.

The investors, anticipating large profits, set up an elaborate network of holding companies in tax havens. One holding company was registered in the Netherlands, another in Curacao in the Dutch Antilles. Later, an investment company was opened in the British Channel Islands. The investors saw no point in paying unnecessary taxes for an international company.

The group only managed to raise $5 million, half of the total estimated necessary for the project, but they decided to go ahead and attract new investment as they went along. A contract with Stout's GRC to develop and manage the enterprise was signed. Stout was to receive $2 million of the projected $10 million spent over the next two years.

Back in Washington in the summer of 1981, Stout began recruiting his management team. He turned to the government, partly on the assumption that information processing systems that had been perfected by government personnel could be put in the marketplace by the same hands. Never having been in government himself, yet living in *the* government town, Stout, like his potential clients, seemed impressed by the people in the great state bureaucracies and the reputations they carried.

"Tony liked the idea of top CIA men and ambassadors working for him," said someone who knows him well. Their stature was regarded as important for IRIS credibility with clients.

Through contacts, friends and headhunters he selected his four senior managers. The first key figure to sign on was Lee Feldman, a 27-year-old with an IQ that went off the clock and a reputation for having performed marvels with computer software in the Defense Department. His task was to build and run the computer operation.

The communications technology that IRIS planned to use had been developed in the CIA and the Pentagon. There had never been an attempt to adapt it for commercial use before, and therein lay the challenge and the excitement of the enterprise.

Next came Barry Kelly, 50, who had spent most of his life in the CIA and had once been Moscow station chief. Kelly, a quiet-spoken, mild man was on the "up" escalator at the agency, but he took early retirement and was given the job of selling the IRIS service to governments.

Hired at the same time was Paul Boeker, 43, one of the State Department's bright young men. He had worked with former secretary of state Henry Kissinger (he kept a signed testimonial on his office wall) and had been ambassador to Bolivia. He took a leave of absence and was put in charge of the news and analysis operation.

The final member of the senior management to come on board—nautical analogies were popular at IRIS—was John Kulp, 38, who had worked with Citibank in Hong Kong and the Netherlands. Confident and ambitious, his task was to sell the service to corporate and financial customers.

The salaries were excellent. Boeker topped the bill with $112,500 a year; Kelly and Kulp received $100,000 each; Feldman was paid $65,000.

Stout deliberately went for people who had already shown promise, were relatively young and who were still moving up. They responded to his call because he showed them a glimpse of the new information frontier, offered them considerably more money than they had ever earned before, and freed them from the frustrations and servitude of giant organizations. It was a classic pitch: follow me along the primrose path to a new world of affluence and influence. It worked like a charm.

Stout rented large offices in Crystal City with a panoramic view of Washington. The original intention was to put the computers and analytical operation there together, but after the contract was signed, it was found that the ceilings were too low and the electric power too feeble for such an operation. Alternative accommodation for the computer was found 15 miles away in Fullerton, near Springfield. An office designer was hired and the premises lavishly fitted out.

IRIS products were to include a daily flow of news—from wire services, newspapers, journals, specialist newsletters and its own correspondents—and sophisticated analysis on political and economic developments in all the major countries of the world. The boast was that the computer would absorb 15,000 messages a day in eight different languages.

Naturally, the price tag would reflect the cost of such an ambitious operation. The annual subscription for corporations was $100,000 and for governments between $250,000 and $500,000.

Stout hit on the idea of a distinguished panel of international statesmen who would monitor and guarantee the quality of IRIS analytical products. IRIS needed, he told an acquaintance, some "silver hairs" to give it credibility. Charles Longbottom, a former Conservative member of parliament and Seascope's representative on the IRIS board, contacted Edward Heath, an old political ally and friend. Heath agreed to become chairman of the "International Advisory Council" (IAC), which had been hurriedly changed from its original title, "Council of International Advisers" (CIA).

Enticing a former British prime minister to lead this group was quite a coup for Stout, especially since Heath was instrumental in bringing in other big names, including McNamara, former head of the World Bank; Jean-Francois Deniau, a former French trade minister; Rodrigo Botero, an ex-finance minister of Colombia and Saburo Okita, former foreign minister of Japan. A leading Arab and African were sought to complete the international symmetry of the group but were never found.

Heath and McNamara made clear from the outset they were interested in the effect that a far-reaching and objective information service would have on the expansion of trade and investment in the Third World. The group's duties were to meet every three months and review IRIS analytical products. However, as with the rest of the IRIS operation, there was a heavy price tag. Heath was to be paid 50,000 pounds annually ($75,000 at current exchange rates) and other members were to receive $3,000, plus expenses, for each meeting they attended.

Back in London in the fall of 1981, Stout was preparing for the launch. He hired David Kingsley, an experienced London public relations consultant, who devised the title, International Reporting Information Systems (IRIS)—the staid investors balked at "Grand Slam"—and a geometric logo of a square of white dots with one red one below indicating the vital piece of information, among the morass, that IRIS clients would want. (The message did not always get through. Once when a Jordanian official was given an IRIS business card during a sales meeting, he glanced down at it, assumed the red dot was a splash of ink or dried blood, and spent the next half hour surreptitiously trying to scrape it off with his fingernail.)

In November 1981, IRIS was officially launched in London and Washington. A glossy brochure presented an appetizing menu for the "world's decision-makers." The "heart of IRIS" was a huge computer, its "soul" a staff of expert analysts in Washington backed by a worldwide network of IRIS correspondents and bureaus. Shortly after this, there was a picture of Stout in People magazine standing in front of a computer (it belonged to the World Bank), two terminals at his side and his hands wrapped around a globe.

The press reaction reflected confusion over exactly what IRIS was trying to do, skepticism over whether it could do it and a fixation with the alleged clandestine nature of the organization. The last seemed to have arisen from Stout's early assertion that what computer technology had done for the U.S. government and its agencies would now be available to the private sector and foreign governments on a strictly commercial basis.

The press on both sides of the Atlantic pounced on the "private CIA . . . spy firm" label and never let go despite countless protestations by Edward Heath—who was deeply embarrassed by this and the disclosure of his fee—that IRIS was a bona fide information service, open to all, that would encourage trade and investment throughout the world by disseminating accurate and timely news and analysis.

Within two months of its launching, the new ship was in trouble. Fuel was running out, there was a sense of drift and below decks there was a whiff of mutiny. The first blow was the collapse of the political risk insurance scheme that was supposed to net IRIS $200,000 a month. IRIS sources said that D'Ambrumenil failed to deliver what he had promised. D'Ambrumenil replied that Stout had failed to produce the information on which he was to base the business.

Amid mutual recriminations, the two men fell out, and D'Ambrumenil went back to insurance brokerage.

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The Lloyds underwriter, the third man in the triangle who was supposed to do the actual underwriting, sold his business and dropped off the scene. His name subsequently came up in connection with investigations of the scandals that have recently rocked Lloyds in London. When I spoke to him by telephone at his Geneva home last week, he said he was in "semiretirement and improving my golf."

On March 15 last year, I reported to Crystal City for my first day's work as IRIS Africa director. Having originally turned down the job, I had changed my mind, lured by the concept, the money ($75,000 a year) and the reassuring presence of other professional journalists. My task was to hire an editor, three analysts and a secretary to work with me in Washington, and then go out to Africa and sign up a large number of correspondents. A budget, I was told, would be worked out later.

There was a curious atmosphere, at once calm and disconcerting, in those comfortable offices. Three glamorous receptionists sat in the entrance lobby, which was decorated with flowering plants and some fine political posters, old maps and famous cartoons. A small group of analysts sat around talking. Interior partitioning work in the "newsroom" had stopped, half-finished, and a number of telephones sat on the floor waiting, it seemed, for cubicles to be built around them. Stout's office was empty, but the faint aroma of good cigars suggested a recent presence.

John de St. Jorre, a former London Observer correspondent in Africa, Paris and the Middle East, became IRIS Africa director in March, 1982, after first turning down the job. He joined because he was attracted by the concept, the $75,000-a-year salary and the reassuring presence of other professional journalists. De St. Jorre supplemented his insider's knowledge by extensive interviews with the major figures involved in the story in the 10 months he worked for IRIS and the period after it collapsed.

Boeker, my boss, was apologetic. There had been some problems, he said. There was a need for refinancing, a new business plan, some managerial changes. There would be a freeze on hiring. Meanwhile, I could go through the mountain of resumes on my desk, mainly from out-of-work Ph.D.s, including an audacious bid for a job from Dr. Eschel Rhoodie, the former secretary of South Africa's Ministry of Information who resigned in 1978 following a scandal of Watergate dimensions, who claimed he had always been anti-apartheid.

Washington's weather became unseasonably chilly during the next few days. So did the climate at IRIS. First, the three receptionists disappeared, then the office manager, finally an analyst. One morning, in the reception area, an IRIS veteran of three months standing grabbed my arm and pointed at the plants.

"Keep an eye on those," he said. "If they go, we're really in trouble. They're rented."

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Board Room Coup

By John de St. Jorre
Special to The Washington Post

On March 10, 1982, Anthony Stout arrived punctually at the offices of the Henry Ansbacher Bank in the City of London for a meeting of the IRIS investors' board. As he turned into the building he was astonished to see his four deputies—men he had hired only six months before and thought were looking after the store in Washington—walking into the building in front of him.

At the board meeting it was announced that the four men would be making a presentation. Stout was asked to leave the room and did so, accompanied by Charles Longbottom, IRIS' chairman. By the end of the day, it was clear Stout had been pushed aside in a coup run by his senior operational managers.

Stout, the imaginative entrepreneur and promoter, the man with the vision of the new information frontier that IRIS was to cross, was no longer in control of the enterprise he had spent two years developing. The investors he had attracted to IRIS replaced him—three months after its official launch—with his deputies, who now had to prove they could run a multimillion-dollar business as well as they had run the coup.

The new Washington team consisted of Barry Kelly, 50, a former senior CIA official; Paul Boeker, 43, an ex-ambassador and rising star in Foggy Bottom on leave from the State Department; Lee Feldman, 27, a computer whiz who had joined IRIS from the Pentagon, and John Kulp, 38, who, as a former marketing man with Citibank, was the only one of the quartet with hands-on experience of the marketplace.

IRIS (International Reporting Information Systems) was in deep financial and managerial trouble within weeks of being launched in November 1981, and by late January the four began their campaign to take over the ambitious venture, which had been organized to provide corporate and government decision makers with a worldwide flow of information through a computer network.

By then, the "Gang of Four"—as they inevitably came to be known among the IRIS staff—had become disenchanted with Stout. They had concluded that he was not giving the project the time and leadership it needed and, although he was technically within his budget, they said, money had been wasted and little had been achieved.

All the original capital—$5.5 million—had gone. The computer had swallowed $2.9 million and was still a year away from full operation. Some of the other costs incurred in the Stout era, according to his final bookkeeping submission to the investors, included $330,000 for desks and furniture, $40,000 for artwork in the Crystal City offices, $82,000 for carpeting and drapes, $147,000 for public relations and $143,000 for "architectural and design services." Stout's management fee from the inception of the project under the IRIS contract with his Government Research Corp. (GRC) until his ouster was $442,000.

In Washington, as they planned their moves against Stout, his four deputies realized that the key to success was the support of a sufficient number of the most influential investors. Three of the investors were living in London, where the March 10 investors' board meeting was to take place, and they were approached.

They included Longbottom of the London insurance company Seascope, who had become convinced that Stout had to go after a visit to Crystal City where he listened to the Gang of Four's grievances; John Wallace, the London representative of Fred Olsen, the Norwegian shipping magnate; Charles Williams of the London-based Henry Ansbacher Bank group who had been responsible for packaging much of the original investment capital.

A week before the board meeting, the four divisional managers sent a telex to Longbottom outlining the post-Stout era as they saw it. A new corporate entity, owned by them, would be established to "design, complete, maintain and market the IRIS system." Stout's contract to run IRIS would be ended, although he would remain an investor. Longbottom was invited to serve as the new corporation's non-executive chairman.

Until then, the investors had taken a largely passive role in the running of IRIS, having delegated to Stout the day-to-day managing of the operation. But now there was a growing awareness that the problems of IRIS were extensive and went beyond the immediate one of managerial control.

In their telex message, the Gang of Four expressed concern at the lack of time before the board meeting.

"We firmly believe," they said, "that the substance of our proposal be worked out beforehand."

But Kelly, they suggested, could come over to London "discreetly" four days before the meeting to talk to the other key investors, Wallace and Williams.

The tone of the telex message was confident, firm, even authoritative. It was doubtful that other alternatives put forward by the investors would be acceptable, the group stressed. What would happen if the investors did not go along was not spelled out, but the implication was some dramatic action, presumably collective resignation.

Faced with a hostile majority on the eight-member board, Stout had little choice but to give up his contract to run IRIS. He agreed to provide marketing services and to help look for new investors, but control of the operation passed to the Gang.

The Swedish investors (businessman Gustaf Douglas, Sven Brise, the representative of Skandia, Sweden's largest insurance firm, and Christian Norgren, the

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prince of Liechtenstein's man on behalf of The Bank in Liechtenstein) felt uneasy about dumping Stout, the project's founder and promoter, but they went along with the others.

In a compromise move at the meeting, Douglas, an art lover with a personal financial stake in IRIS who was a friend of Stout, replaced Charles Longbottom as chairman of the board. Douglas, according to several investors, lobbied energetically for the job.

"Tony is a marvelous promoter," said a close associate. "People with money need people with ideas. He puts sex appeal into the dollar signs, but he's not a manager."

Stout, for his part, felt the financial problems were caused by cost overruns in the computer operation. The investors, he thought, figured that they could do the job without his services and thus save money on GRC's management fee.

With Stout gone, the investors confronted a Washington operation with an untried management team in charge and at which few analysts and no correspondents had been hired. IRIS' financial prospects had not been enhanced by the collapse in January of the political risk insurance business, which had lured many of them to invest in the first place, and by the absence of a coherent marketing strategy.

Yet after some hesitation, the investors sank another $7 million into IRIS. Their reasons were complex. Some of the investors, notably Ansbacher, Skandia and Olsen, seemed to think it could still work and urged the others, especially the prince of Liechtenstein to put more money in.

"The prince," said his representative, Norgren, "was more than ready to call it a day."

Some of the investors said later they felt a loyalty—and a debt—to the four new IRIS managers and wanted to give them a chance to run the operation. Others pointed out that it would have been a long and costly process to find and hire an experienced business manager, and, besides, Douglas, the new chairman, liked Kelly and wanted to try him out.

In addition, there was a desire not to disappoint former British prime minister Edward Heath, former U.S. defense secretary and World Bank chief Robert S. McNamara and other members of IRIS' advisory council who had put their names and reputations on the line. Moreover, as throughout the IRIS saga, there was a curious inertia, a reluctance to say, "Stop, we've had enough, let's get off."

So, IRIS sailed on with new money, a new, U.S.-based company and new management.

Back in Crystal City, as spring turned into summer, Kelly became the new leader because, he joked, he was the oldest. (The other three joked back that he had gotten the job because he didn't have as much to do as they did.)

Then, in the manner of coups, Kulp, the corporate marketing man and a key figure in the move against Stout, had differences of opinion with the others over sales strategy and was squeezed out in June. Kulp had a more narrowly focused view of IRIS' products than his colleagues, some of whom felt his banking experience was not broad enough for the job. His departure created a vacuum in the vital sales field, leaving IRIS exclusively in the hands of former government officials whose own experience in the marketplace was limited.

Kelly assumed the title of chief executive officer, but IRIS' leadership often tended to resemble that of a Latin American junta. It was not that it was repressive—quite the contrary—but it was difficult to know who was making the decisions. Moreover, the trio's new employment contracts suggested that they were equals, with Kelly only marginally more equal than the others. They all received raises bringing their salaries up to $125,000 a year. They were also given a small share of stock in the new IRIS company and each was promised a $92,000 bonus when their departments were operational, regardless of IRIS' viability at that time.

Boeker and Feldman often had differences of opinion over the direction IRIS should take. In these disputes, Kelly usually sought a consensus. A visitor to IRIS around that time came away with a confused impression of the leadership and IRIS' strategy. "Sitting in a room with those guys," he said, "you had several different ideas of what IRIS was all about.

"Feldman and Boeker were the two bright guys," he added, "but it was never clear what Kelly thought."

It seemed clear to the staff, however, that despite their differences the three managers were agreed that they should run IRIS. They did not hire a new corporate marketing executive to replace Kulp, deciding to handle the job themselves.

In our end of the operation, where the telephones still lay on the floor and most of the analysts' cubicles remained empty, Boeker, our boss, told us to start hiring a Washington-based staff of analysts and to fan out through Asia, Africa and Latin America recruiting correspondents.

We, the regional directors, had some reservations about this because we still did not have a clear fix on the kind of information and analysis needed, nor for whom it was intended. My recollection of the early summer last year was one of endless, inconclusive meetings, chaired by Boeker, discussing the "IRIS product."

"Not only were we beginning to look like a government," an analyst commented, "but we were being run like one."

A nagging concern for the journalists at IRIS was the adhesive quality of the "private CIA firm" label. Heath had always been worried about it and sought an assurance from the IRIS board that no more CIA people would be hired. (McNamara did not air his views publicly at the time.)

Heath had been promised by Longbottom back in January that hirings from the agency would cease unless there were overpowering reasons to do so. However, by the autumn of 1982 under Kelly's direction, nine out of IRIS' 10 top executives were former U.S. government officials, four of them from the CIA. Kelly, who had taken early retirement from the CIA to join IRIS, recruited a number of former colleagues, taking advantage of their experience and technical skills and offering them better salaries than the agency.

IRIS management continued to underestimate the adverse effects that these hirings had on the willingness of contributors to work for IRIS and on our journalistic reputations. When Richard Davey, IRIS' East European director on leave of absence from the London Times, refused to accept an analyst who had come straight from the CIA, Boeker expressed genuine surprise.

There were persistent rumors, inside and outside IRIS, that the CIA was actively worried about having a rival in the private sector and that it had planted its own operatives to ensure that IRIS failed. No proof of this ever surfaced.

The Soviet Embassy in Washington showed an interest in subscribing to the IRIS service at one time. The approach split the IRIS management. Some of the former CIA men opposed the idea, while Boeker, the consummate diplomat, temporized, arguing that it would not be advisable to have the Soviet Union as our first client. In any event, the Russians did not pursue the matter.

After the collapse, I received a telephone call from a reporter who asked: "Was it true that IRIS' only client had been the KGB?"

Meanwhile, another drama was developing. Negotiations between IRIS and Stout's GRC over the latter's running the North American service had broken down. GRC thought at one stage that a deal had been reached when Boeker, on behalf of IRIS, 3

and Stephen Caulfield, the president of GRC, had shaken hands on it back in May. Boeker said later that while there had been a general understanding, he had never shaken hands on "agreed terms."

But in mid-August, after consultations with the board, the management decided to set up IRIS' own North American service. Stout was furious and told the investors in Europe he would seek an injunction preventing IRIS from marketing such a service on the grounds that it violated the "non-competition" clause of his agreement with them, unless they changed their minds. The investors chose to call what they thought was his bluff and in mid-September Stout launched a lawsuit seeking the injunction against his own creation.

The investors were appalled. In European business circles, that sort of thing simply wasn't done. At the next board meeting, a countersuit was agreed upon. This suit, which sought to block the injuction, alleged that Stout had violated his own pledge of non-competition with IRIS. It also demanded immediate repayment of a $300,000 loan he had been given by the investors as an advance for GRC's providing IRIS with a North American service.

During the meeting, the investors made it clear that expense would not be an object in pursuing the case. Prince Franz Josef II of Liechtenstein, red in the face, told his colleagues that his family had been in business for 400 years. Never, but never, he said, had it been involved in litigation.

NEXT: The sky's the limit

John de St. Jorre, a former London Observer correspondent in Africa, Paris and the Middle East, became IRIS' Africa director in March 1982 after first turning down the job. He joined because he was attracted by the concept, the $75,000-a-year salary and the reassuring presence of other professional journalists. De St. Jorre supplemented his insider's knowledge by extensive interviews with the major figures involved in the story in the 10 months he worked for IRIS and the period after it collapsed.

The Rise and Fall of IRIS

Fall 1979-November 1981: D'Ambrumenil approaches Stout, who raises $5.5 million from European investors. Staff is recruited. Offices are rented in Virginia and International Advisory Council formed.

November 1981: IRIS launch in Washington and London.

January 1982: Collapse of political risk insurance scheme.

March 1982: "Gang of Four" ousts Stout.

May 1982: Investors provide $7 million in new funds.

June 1982: New IRIS company established. Kulp is squeezed out. "Gang of Three" gets raises.

Summer 1982: Marketing drive is launched.

Fall 1982: Talks with The Washington Post Co., a Saudi publishing group and the Insurance Co. of North America in New York. New staff and equipment hired. Country assessments and reports under way in earnest.

September 1982: Stout sues IRIS.

October 1982: Marketing man is hired.

November 1982: Computer center in Fullerton, Va., is opened.

Dec. 6, 1982: Key investors' board meeting in Washington.

Jan. 3, 1983: "Day of the Short Knives"—40% of IRIS staff fired.

Jan. 13, 1983: IAC and investor meeting in London.

Jan. 14, 1983: Investors meet alone, decide to close IRIS.

Jan. 28, 1983: "Day of the Long Knives"—remaining staff is dismissed.

Feb. 3, 1983: Petition for bankruptcy is filed.

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'Sky's the Limit' for High Tech Agency

By John de St. Jorre
Special to The Washington Post

The autumn of 1982 was the high-water mark in the short and confused life of IRIS. It was a heady time for the management, and things were humming in IRIS' opulent Crystal City offices.

Funds from the investors in Europe were flowing through the intricate channels of holding companies—in the British Channel Islands, the Netherlands and the Dutch Antilles—that had been engineered to minimize the taxes on the profits the investors confidently expected to make. But money was also flowing out—more than $1 million a month.

The Washington management team appeared confident about the stability of the funding and the ultimate success of International Reporting Information Systems (IRIS).

In late September, an analyst asked Paul Boeker, the head of information and analysis who was on leave from a promising State Department career, if he could order a couple of books about his area of expertise. "Go ahead," he was told, "The sky's the limit."

An enormously ambitious venture, IRIS was formed to cross new boundaries in the information business using state-of-the art computer technology and a dazzling cast of players drawn from State Department, the CIA and the Pentagon, academia and the ranks of international journalism. IRIS promised to give businessmen and government officials around the world "what they wanted to know, when they needed to know it." Washington, the seat of power and influence, was chosen as its base.

In Crystal City, the IRIS staff topped the 150 mark and was still growing. IRIS' hiring practices often seemed bizarre, and there was a strong flavor of cronyism where skills and experience were not always the main consideration.

One apparently well-qualified analyst who joined couldn't type, which meant that someone else had to enter her work into the word processors. A couple of waiters were hired as current information reporters.

Closer to the top, IRIS had begun to look a bit like a Democratic administration-in-exile. People such as Lawrence Pezzullo (former ambassador to Nicaragua) joined as a senior consultant. J. Brian Atwood (former assistant secretary of state) became Boeker's deputy and John Trattner (former State Department spokesman), chief of correspondents. Alan Baron (owner of Baron's Report, a political newsletter) was hired as director of the North American service, and Viron Vaky (a former assistant secretary of state for Inter-American affairs) came on at the last moment as Latin American director.

IRIS consistently tapped Washington's pool of government and insider expertise for its needs. Its special allure—the information dream, the money, the people—drew in the experts.

Salary scales at the senior levels were lavish—$75,000 to $100,000 a year was not unusual—but not always rational. One regional director was paid a third less than the rest and some contributors received twice as much as others for identical assignments.

IRIS subscribed to 15 different wire services—English, French, Spanish, German, Japanese—spewing out an enormous volume of news around the clock. (The computer was not ready to digest and sort this information so it had to be handled manually by a wireroom staff sorting reams of paper into regional pigeonholes.)

The telephones on the newsroom floor had at last risen to table height and disappeared into the privacy of cubicles with newly recruited analysts to keep them company. Wang word processors, high-speed printers and new telex machines arrived, and training programs were under way.

In addition to the usual meetings we endured, there were now office planning meetings. We were, we learned, becoming too large for the present offices and would move into larger premises—three whole floors instead of two-thirds of one—in February 1983. IRIS' Crystal City rental would then increase from the current $40,000 to $100,000 a month.

On the production side, we were writing away, building up our "country assessments" (5,000-word pieces covering major political and economic themes), news analyses and daily regional reports highlighting and analyzing the main events in a continent. The Washington-based part of the analytical phase of the IRIS project was moving into place. It was now time, we were told, to develop IRIS' worldwide network of correspondents.

In late October, Boeker sent me to Africa to recruit about a score of correspondents and look into the mechanics of establishing regional bureaus, with full-time staff in Abidjan, Ivory Coast; Johannesburg, and Nairobi, Kenya. On payment for work done by part-time correspondents, I was to use my own judgment. No overall budget was mentioned. The sky did, indeed, seem to be the limit.

But, unknown to us, there were dark clouds on the horizon.

A marketing drive targeting banks and financial institutions in the summer had not gone well. IRIS had neither clients, nor a corporate marketing director to replace the one who had been eased out in June, nor a coherent marketing strategy.

The journalists and others working away on the country reports and building up the regional news services had little notion at the time of the investors' state of mind and what was going on behind the scenes as they searched for new funds.

The two were closely linked. In May, when the investors had agreed to continue to support the enterprise, there had been an understanding that new money was vital for success. Under an agreement

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reached in London, Anthony Stout, the founder of IRIS who had been ousted from day-to-day control in March, had been allowed 90 days to find new investors for which he would have received a handsome commission. He contacted The Washington Post Co. and a few other interested parties, but nothing came to fruition during the prescribed period.

A number of potential investors came forward after that, attracted by IRIS' promise of a computer-age information service spanning the globe. The original investors, increasingly anxious to attract new funds, broke up into small groups to scour the marketplace. The presence of former British prime minister Edward Heath and former World Bank chief Robert S. McNamara on IRIS' advisory council was an asset. The failure to attract a single client was a drawback.

Maurice Strong, the Canadian businessman and former head of Canada's aid agency, CIDA, had shown interest in investing in IRIS earlier in the year but dropped by the wayside. There were now three groups talking with the investors: The Washington Post Co.; the Saudi Research and Marketing Corp. (SRMC), a large Saudi publishing concern with operations in Houston, London and the Middle East, and the Insurance Co. of North America (INA) in New York.

All came close to buying in. The Washington Post Co. was interested because it regarded electronic publishing to be part of its business and because it was intrigued by both the technological and analytical aspects of the IRIS operation, company officials said after IRIS had gone bankrupt and closed its doors. After a hard look at IRIS, it made an offer of $2.6 million for about 20 percent of the equity, but with tough conditions attached including matching funds, a restructuring of the company—no more tax havens and offshore holdings—in which The Post company would have had a majority on the IRIS board and de facto control of the operation.

The IRIS investors were divided, according to Christian Norgren, the prince of Liechtenstein's representative on behalf of The Bank in Liechtenstein. He strongly favored the Post company's entry, he said, and felt that Sven Brise, the representative of Skandia, Sweden's largest insurance company, leaned in the same direction. But the London-based group of investors—the Henry Ansbacher Bank group, the London insurance company Seascope and the Norwegian shipping magnate Fred Olsen—as well as Douglas, were in favor of waiting to see what would emerge from their discussions with the Saudi company, which they hoped might come in with more money and less desire for control than The Washington Post Co. The Post's offer was never taken up by the investors.

The Saudi Research and Marketing Corp. took a close look at IRIS. But it apparently was deterred by a lawsuit that had been filed against IRIS by Stout in September seeking to prevent the company from developing its own North American service and thereby competing, he claimed, with his own National Journal and Government Research Corp. IRIS' representative in the Middle East wrote a report saying that the Saudis found the Stout lawsuit "worrisome" and that they were also looking for their own electronic retrieval system.

INA in New York was also serious but became preoccupied with its merger with Connecticut General Life Insurance Co., which took place around this time. Boeker, who was involved with some of the negotiations, said later he was convinced that INA would have come in if The Post had.

While I was away (November to mid-December), IRIS's growing reputation among staffers for inconsistency, incompetence and fantasy burst into full flower. It was decided to "open" the computer center in Fullerton, Va. The fact that the computer was not ready—and would not be so for at least another four months—did not deter our leaders. Neither did the conspicuous dearth of clients.

President Reagan's campaign public relations advisers, Gray & Company, were hired. Heath, chairman of IRIS' trustee council, agreed to fly from London for the event, and W. Michael Blumenthal, former Treasury secretary and chairman of Burroughs Corp., which had provided the computer, promised to come and cut the ribbon.

Richard Whittle, who had come from the Congressional Quarterly to be IRIS' North America editor, attended the ceremony and provided the following account.

A press bus was arranged to take reporters from Crystal City to the computer facility, 15 miles to the south. The passengers were Mrs. Barry Kelly, wife of IRIS' chief executive officer; Mrs. Boeker; a new marketing man; Whittle, and two journalists. On arrival in Fullerton, the row of seats reserved for the press contained one occupant, a reporter from a computer magazine. The rest of the crowd was curious IRIS staff.

Heath did not turn up although he had been sighted in the Crystal City offices earlier. But Blumenthal was there and gave a short speech praising Burroughs equipment and suggesting that IRIS was the cutting edge of the information revolution. Kelly took over and was asked what IRIS planned to do with all this equipment. A short tour followed during which the visitors saw a young woman slowly feeding wire service copy into an optical character reader and stared blankly at the inert computer main frames.

Sandwiches and coffee were served and the main officials departed, leaving the "press" to mingle with the staff. Summing up, Whittle said: "Of all the press conferences I had attended, this was the most comic. I had then been with IRIS for about a month and I suddenly realized, with an awful sinking feeling, that I had joined the Keystone Cops."

But IRIS did make one important decision around this time. A professional marketing man, Lee Stiehl, who had spent eight years in the high technology field at General Telephone & Electronics Corp.-Telenet and 18 months with Ma/Com-Local Digital Distribution Co., was hired. Marketing had not gone well with the senior management—Kelly, Boeker and Lee Feldman, augmented by Ron Estes, a former CIA colleague of Kelly's—trying to do it themselves.

The problem went back to the beginning. I once asked Boeker what kind of market survey had been done in the early days of IRIS. He said that Anthony Stout had hired someone to do the research and the results had been spectacular. Everyone, the researcher reported, loved the IRIS concept. I asked if I could read the report. Boeker shook his head.

"Confidential?" I asked.

"No," he replied. "Verbal."

During John Kulp's time as corporate marketing director, marketing strategy had become a contentious issue. There were doubts about Kulp's marketing, as opposed to his banking skills—he had come from Citibank—when he produced a target list of large U.S. construction firms that unaccountably left off Bechtel, the San Francisco-based giant in the field, and a few others.

But he genuinely believed that what the private sector wanted from IRIS was not the broad political and economic analysis that we were cumbrously cranking up to give them, but fast-moving daily tactical intelligence on the minutiae of their business environment, including a good idea of what their competitors were up to.

Neither Boeker nor Kelly, nor indeed the journalists at IRIS, liked the sound of that. It was too close to the work of a business consultantcy or trade newsletter and not what we had joined IRIS for. Kulp left abruptly, taking his idea with him, although it was to surface again near the end. A marketing consultant was hired. His task was to examine the nature of the IRIS beast, help us define it—the more you looked at it the more it resembled an okapi, a giraffe-like animal with zebra stripes—and suggest ways of selling it. He did that and departed.

Enter Stiehl. Before he joined IRIS he had been given the impression, he said, that the product was well-defined and that many customers were ready to sign. The reality, he said when he joined in late October 1982, was different.

"Talking to Kelly, Boeker and Feldman, I had the impression that there were three different companies. I got this feeling from potential clients too. They were confused about what IRIS was selling. To be at this point so late in IRIS' development," he said, "was shocking to me."

One of the fundamental problems, Stiehl pointed out, was that IRIS had never developed an adequate business plan. There were plenty of tactical operating plans, he said, but no clear overall business strategy addressing the nature of the market, how IRIS' products would penetrate it, what the competition was like and so on.

"I had never been involved with a venture that didn't have a plan before," he said.

Stiehl, with the support of the management, "unbundled" IRIS' high-priced products, which meant that instead of a corporation having to pay $100,000 a year for the whole service, it could subscribe to pieces of it for a much lower cost and add on bits if it wanted to. Then Kelly deflected him from marketing to fill the hole that he himself had identified: the development of IRIS' first business plan.

When he had done his sums, he presented them to Kelly and John Nugent, the financial director. Stiehl's projections showed that it would be two to three years before IRIS broke even. Meanwhile, it would consume another $20 million.

Kelly and Nugent, according to Stiehl, disagreed. They were convinced IRIS could become profitable by the last quarter of 1983. Nugent took over responsibility for drafting the plan for a crucial meeting of the IRIS board.

At the meeting, their optimistic estimates were presented. Stiehl was excluded from the discussions, and he was laid off shortly thereafter.

There had been much interest shown by governments and corporations alike in what IRIS had to offer, but no deals had been signed. The recession was blamed but sometimes unfortunate accidents made matters worse, such as the time when Kelly was taking a senior executive around the Crystal City offices.

As they were passing the boardroom where IRIS' display terminal was located, something caught the banker's eye. Inside was a young blond man, jacket off and sleeves rolled up, vigorously shaking the terminal. Kelly, instead of hurrying the visitor on, stopped and drew him into the boardroom.

"I'd like to introduce you to our senior vice-president for computer systems," he said.

"Meet Lee Feldman."

NEXT: IRIS' last days

John de St. Jorre, a former London Observer correspondent in Africa, Paris and the Middle East, became IRIS' Africa director in March 1982 after first turning down the job. He joined because he was attracted by the concept, the $75,000-a-year salary and the reassuring presence of other professional journalists. De St. Jorre supplemented his insider's knowledge by extensive interviews with the major figures involved in the story in the 10 months he worked for IRIS and the period after it collapsed.

Fall 1979-November 1981: D'Ambrumenil approaches Stout, who raises $5.5 million from European investors. Staff is recruited. Offices are rented in Virginia and International Advisory Council formed.

November 1981: IRIS launch.

January 1982: Collapse of political risk insurance scheme.

March 1982: "Gang of Four" ousts Stout.

May 1982: Investors provide $7 million in new funds.

June 1982: New IRIS company established. Kulp squeezed out.

Summer 1982: Marketing drive is launched.

Fall 1982: Talks with The Washington Post Co., a Saudi publishing group and the Insurance Co. of North America in New York. New staff hired. Country assessments under way.

September 1982: Stout sues IRIS.

October 1982: Marketing man hired.

November 1982: Virginia computer center opened.

Dec. 6, 1982: Key investors' board meeting in Washington.

Jan. 3, 1983: 40% of staff fired.

Jan. 13, 1983: IAC-investor meeting in London.

Jan. 14, 1983: Investors meet alone, decide to close IRIS.

Jan. 28, 1983: Remaining staff dismissed.

Feb. 3, 1983: Bankruptcy petition filed.

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End of Adventure Had Soap Opera Aspects

THE WORLD OF IRIS

LAST OF A SERIES

By John de St. Jorre
Special to The Washington Post

IRIS' last month of operation was as bizarre as any satirist could desire. What had begun as a search for the golden grail, then changed into a saga where periods of hope alternated with moments of despair, finally degenerated into pure soap.

In those last days, I found myself almost running to work, not only to find out what new turn of fortune had occurred overnight but also to learn what my own role might be in the day ahead. We were all taking part in a living soap opera, and although it was often hair-raising and sometimes traumatic, it was, like all good soaps, obsessive.

International Reporting Information Systems, the $15 million computer-based worldwide information system that promised to provide the world's top businessmen and government officials with high-grade political and economic analysis, had still not signed a single client. Most of the $7 million the investors had committed to the project six months earlier had gone or had not been paid in.

There is an assumption by nonbusinessmen that new business ventures, particularly one as ambitious as IRIS, are meticulously planned before anyone throws a dime into the hat. IRIS was the living proof that this is not always the case. Indeed, the story of IRIS could make a good business school manual of how not to go about it.

IRIS' original financial backers, a predominantly European group, had met in Washington last Dec. 6 to consider the options of their faltering enterprise.

Gustaf Douglas, the Swedish chairman of the board, told me later that he urged his colleagues to close the company. Symptomatic of the confusion that often seemed to surround the board's deliberations, however, was the report of other investors and witnesses at the meeting that he did no such thing. Paul Boeker, who ran IRIS' analysis and information operation, said Douglas was actually talking of new financing, suggesting cuts in salaries and offering to sell a painting worth $100,000 to boost IRIS' flagging finances.

Boeker suggested he keep the painting—Douglas is an art lover and collector—and ante up the $500,000 he had pledged to the project but never paid because he said that the Bank of Sweden would not allow him to send his money out.

Chief executive officer Barry Kelly, Boeker, computer manager Lee Feldman and financial director John Nugent, IRIS' senior management, were not in all the sessions of the December meeting but Paul Bunge, the firm's general counsel, was present throughout.

"The investors wanted to know their liabilities," he said, "if they filed for bankruptcy. I told them they were protected by the limited-liability laws of the U.S."

The liabilities of the U.S.-registered IRIS company were in the region of $2 million, including about $800,000 due in employes' severance pay, according to bankruptcy papers filed in Alexandria in February. But the predominantly European investors had no liability for these debts.

As the meeting broke for lunch, Bunge was convinced it was all over.

In the afternoon, however, the apparent resolution of the morning's discussions melted away. Sven Brise, the representative of Skandia, Sweden's largest insurance company, said he would put up $500,000 to pay salaries and facilitate an orderly closedown. But nothing was agreed upon.

"The board had a constitutional inability to make decisions," said Bunge who had been the official *rapporteur* at many previous meetings. "No one wanted to be the bad guy, the guy who closed IRIS down."

The management was called back late in the afternoon and it was decided to make a last-minute effort to draw in new investment. "But it was pretty clear," Bunge concluded, "that the investors knew IRIS was doomed."

Three weeks after that meeting, Douglas sent a telex to all the other investors proposing an immediate shutdown. Some agreed, others stalled, and a few—notably Fred Olsen, the Norwegian shipping magnate, the Henry Ansbacher Bank group and the London insurance company Seascope—angrily rejected the idea.

Back in Crystal City, we were working for the mid-January meeting of the International Advisory Council, IRIS' quality-control panel of former statesmen and officials. We caught the drift, if not all the substance, of what was going on by reading the investors' telex messages which, through a typically IRIS twist of fate, popped up almost daily on our newsroom machines.

What none of us really knew, even at this late stage, was if anybody wanted to buy the stuff we were producing or, if they did, how much they would be prepared to pay for it. The feedback from the marketplace was sparse, fragmentary, confusing: rather like the rumors of a distant war, and not always reassuring. Johnson & Johnson, the marketing people said, wanted us to track any published reference or legislation on ethylene oxide, a chemical used for sterilization, in Western Europe. The Jordanian government was interested, we were told, in the proceedings of the Israeli Knesset.

We were already aware of the lack of clients and of problems such as overdue bills to Burroughs Corp. for the computer and of the fading prospects of new investors.

In our own operation, the editor of the Latin American region, due to go to New York for a conference for which IRIS had paid a large fee, had his airline ticket snatched away by one of the accountants as he was about to leave the office. Clearly, all was not well, but new staff was still being recruited and the Latin American director was sent off to staff his region with correspondents and open regional offices in Miami, Sao Paulo and Mexico City.

Not long after, the axe fell. On Monday, Jan. 3. 159 people came to work as usual. By noon, 65 of them had gone. "Let go" is the euphemism; "fired" was the reality. Barry Kelly, IRIS' president, called a dozen senior staff into the boardroom at 9:30 that morning and explained that some of the investors had not paid their dues and IRIS' operating budget had to be slashed from over $1 million a month to $600,000. By laying off almost 40 percent of the staff now, he said, he could give them two weeks' severance pay.

The meeting broke up and the firing began, Boeker and Kelly going from office to office to perform the grim task.

If IRIS had been limping before that Monday morning, it was now a stretcher case. The computer operation lost 40 percent of its staff. Lee Feldman, who ran it, said he had been told about the layoffs the previous Thursday as he was about to fly to Jordan on a marketing trip. He said it would put back the completion of the system from April to the fall of 1983.

A number of analysts, marketing people and administration staff also went. The Africa region remained unscathed but only because we all had severance clauses in our contracts. The Latin American bureau was completely wiped out. I managed to track down Latin American director Juan de Onis, a former New York Times reporter, in Peru, and told him the news. He jumped on a plane back to Washington. The management, it appeared, had forgotten to tell him. He left shortly thereafter when his contract expired.

Lee Stiehl, the vice president for marketing and the bearer of the bad news about IRIS needing another $20 million over at least two years before it would break even, was the most senior casualty. His secretary, who had started work that morning at 9, left for good two hours later.

The managment's flagging energies in the aftermath of the firings were absorbed in trying to clinch a major contract with the Jordanian government and putting on a good show for the IAC and investors in the London meetings, still on schedule for mid-January. The Jordanian contract never appeared though it was close and Feldman said later that he got a letter of intent from the Jordanians just as IRIS was going under.

The London meetings in mid-January left conflicting impressions with different audiences. Edward Heath (a former British prime minister), Robert S. McNamara (a former U.S. defense secretary), Rodrigo Botero (an ex-finance minister of Colombia) and the Washington management said later they shared the conviction that there was still hope. Draft minutes of the joint meeting between the IAC and some of the investors reveal that McNamara at one point made a forceful interjection, saying that IRIS was the "softest business" he had ever been associated with. To have budget plans to spend $17.5 million for 1983 and two weeks into the year change that figure to $7.5 million was "traumatic, unbelievable," he said. The function of the corporate board, he added, made him very "uneasy." Charles Williams, the Ansbacher Bank group chairman, stressed that "closure was not being considered" but, if it ever were, it would be "approached with sense and decency prevailing."

That was on Jan. 13. The next day, the investors met alone. Nearly everyone was present, including Anthony Stout, the founder of IRIS who had been ousted from day-to-day control nine months earlier and who was attending his first board meeting since he had started his lawsuit against IRIS in September. Douglas, the chairman, was the one absentee. Since dispatching his dramatic telex, he had washed his hands of the whole business.

The IRIS management was shut out of the meeting, and spent the whole day sitting around in the Ansbacher Bank offices. This represented a dramatic reversal of fortunes from the managers' moment of triumph in March 1982—when they had overthrown Stout, who now sat inside with the rest of the IRIS board. During the meeting Stout made his peace with his fellow investors by agreeing to withdraw the lawsuit he had filed against IRIS.

The meeting, it transpired, finally came to a very different conclusion from the one Heath and McNamara had attended the day before.

Christian Norgren, the representative of The Bank in Liechtenstein, summed it up.

"It was one of the first constructive meetings we had ever had," he said. "Everyone agreed on what was to be done."

Where did the promise of IRIS go wrong and what implications can be drawn from the story?

First, it should be said that while there were few heroes in the story, there were no real villains either. As individuals, the characters were, on the whole, decent human beings. I always found those with whom I had closest dealings—Stout, Kelly, Boeker, John Kulp (one of the four original deputies who served under Stout and then, with the other three, ousted him) and Feldman—to be friendly and pleasant people. One of the best things about the enterprise was that it brought together a fascinating range of talented individuals.

But if ever there was a case of the blind leading the blind in search of a pot of gold at the end of an electronic rainbow, IRIS was it. And some staff members felt the investors and management were guilty of greed and pride, and of not knowing when to stop.

The main actors accused each other of wrecking the enterprise, yet they shared a common delusion. In attempting to cross a new communications frontier, they crossed the threshold of their proven areas of expertise and tried to do something, on a grand scale, that had never been done before.

Stout, talented promoter, thought he could run a multimillion-dollar business. The bankers and insurance men, who started as passive investors, knowing little about the information game and virtually nothing about electronic publishing, were reluctant to part with their creation even though they hated the active role they were forced to play. The managers, high fliers in their government incarnation, were under the illusion that their skills were transferable.

And then inertia set in and Micawberism, the notion that something good was bound to turn up, flourished. Stout couldn't—wouldn't—let go of something he had created, even though he found himself in the position of suing his own company. The investors couldn't make decisions—on new investors, on changing the management, even on closing it down. Kelly, Boeker and Feldman, likewise, went on far too long, assuming—or just hoping—the well would never run dry.

"IRIS fell apart at the end," said Feldman. "The management just wasn't up to holding it together. Barry Kelly is a decent person but he got in over his head, though I'm as much to blame as he and Paul were."

The investors blamed the management who, in turn, accused the investors of reneging on their funding commitments, neglecting their own interests and feuding among themselves. There is some truth in all these charges. Lee Stiehl, the short-lived marketing director at IRIS but someone who did have a long track record of handling new products in the high tech field, summed it up.

"Both were at fault," he said. "The investors were absentee landlords and this was compounded by a management team that had no business skills. It was a guaranteed formula for failure."

There are still, however, major question marks over two aspects of the operation. First, why wasn't there a proper business plan drawn up and firm budgetary controls established?

The IRIS concept, though comprehensible and exciting as a whole, was difficult to break down and conceptualize in market terms. Toward the end, when there were some professional marketing people working in Crystal City, the message from corporations seemed to be that monitoring their interests closely on a daily basis had some appeal. Governments seemed to be interested in installing computer centers, as well as taking much of the IRIS service.

On financial controls, the divorce between IRIS and Stout's Government Research Corp. left a messy interregnum when there was no financial manager present. The flow of cash from the investors was often irregular, but having spent about $7 million thereafter, no one can accuse them of not putting their money where their mouth was

What the managers did not seem to realize, with their government background, was that the investors were essentially hard-headed money men. At the last fateful meeting in London, one of the investors, feeling sorry for the IRIS executives who had been shut out all day, came over to them and said:

"You have to understand that we are putting a lot more into the project than ourselves. We are putting our money in."

The management was perhaps naive in believing the investors would continue to fund the operation. Douglas, whose own behavior was criticized by the other investors and management—for his telex recommending closure, for not spending enough time with IRIS in Washington and for failing to fulfill his investment pledge—had this to say about their attitude:

"Ah, but you see, they have lived all their lives in the world of appropriations, not earnings."

The other major question concerns Feldman's computer operation. Was it the magic he claimed, or was it fantasy?

Someone who has worked in the computer field for 25 years, including a spell with government contractors, and had a close look at IRIS' computer operation, commented:

"It was a good idea and the scale was new for the private sector. Some software on the lines of Feldman's ideas has been written, but he would be unique if he actually produced software based on his syntactical algorithms. However, when I went down to [the computer center in] Fullerton in the fall of 1982 there was nothing to see, nothing was working." Syntactical algorithms are the brain of the software enabling the computer to sort and make critical distinctions.

"Lee could talk it well," continued the computer expert, "but he didn't have any experience in setting up large systems and I thought he had chosen the wrong hardware because Burroughs is not the most compatible hardware around."

Feldman and his algorithms, in his head or his briefcase, are now up a mountain in California. Burroughs drove up with a truck, the day after Kelly announced the collapse, and took the computer away. We shall never know if the system could have worked. Boeker is back in the State Department and Kelly, who had taken early retirement from the CIA to join IRIS, is the only one of the major players who said that, now it was over, he would rather not talk about it.

Stout said he lost more than half a million dollars and no end of his time. But he, one senses, has elastic reflexes and is a survivor. The National Journal, under John Sullivan, and GRC, run by Stephen Caulfield, distanced themselves as much as they could from the IRIS adventure and neither seems to have suffered from the debacle.

The investors lost their money but not their shirts. For the big companies —Skandia and Olsen—their losses of $3 million each mean little. Ansbacher and Seascope, who took such a leading role in many phases, were hurt. Their stock dropped roughly 25 percent in the month following IRIS' collapse. The prince of Liechtenstein as head of The Bank in Liechtenstein was not wounded but neither was he amused. A London businessman, who observed the saga closely, put it this way:

"For most of the investors, it was punting [betting] money. They put a certain amount aside and went to the races. But what they didn't expect to do was to have to ride the bloody horse halfway through the race."

Will IRIS work one day?

Most people I talked to continue to have faith in the idea. "It will happen," said a businessman in New York. "It's just a question of time. But it will have to be built from the bottom up. IRIS went about it in totally the wrong way by starting with that huge infrastructure and then trying to sell their products at far too high a price."

McNamara, who was embarrassed by the manner of the collapse and who called the investors' inclination to walk away from IRIS' debts through bankruptcy "absolutely disgraceful," has not lost faith either.

"It's a laudable objective," he said. "We need more information. The average American industrialist doesn't know enough about the world."

Some of IRIS' closest competitors seemed worried enough to suggest that, for all its faults, IRIS was on the right track. Business International, for example, became quite apprehensive at the thought of its own successful formula—worldwide reporting combined with customized services—being adapted and improved with the help of computer technology.

Even an organization as globally powerful as Reuters, which sold some of its services to IRIS, seemed at the Alexandria bankruptcy hearings to take an interest in knowing that IRIS was well and truly dead. The consultancy business, Washington's most lively growth industry, was particularly relieved at IRIS' demise. One political consultant admitted that his fraternity had been watching IRIS closely.

CONTINUED

"If it had worked," he said, "it would have wiped us out."

On Jan. 28, at 11:15 a.m. Kelly summoned us all to IRIS' boardroom overlooking the Potomac and Washington. You did not have to be a prophet to know what he was going to say. Only a week earlier, Viron Vaky, a State Department veteran had joined IRIS as the new Latin America director. After a welcoming address by Boeker, the newcomer laughed wryly.

"Thank you," he said. "I feel as if I've just booked a passage on the Titanic."

John de St. Jorre, a former London Observer correspondent in Africa, Paris and the Middle East, became IRIS' Africa director in March 1982 after first turning down the job. He joined because he was attracted by the concept, the $75,000-a-year salary and the reassuring presence of other professional journalists. De St. Jorre supplemented his insider's knowledge by extensive interviews with the major figures involved in the story in the 10 months he worked for IRIS and the period after it collapsed.

The Washington Post has received the following two communications concerning the IRIS series:

International Research & Information Systems, Inc., a Fairfax, Va., company that presently provides word processing and marketing services, has used the acronym IRIS as a trademark for several years. This IRIS is not connected with the now bankrupt International Reporting and Information Systems (IRIS), which is the subject of this series.

The World Bank, whose computers were pictured behind IRIS founder Anthony Stout in a front-page photo in Sunday's editions, wishes to make clear that there is no connection between Stout or his organization and the bank.